

State of the City Address

Mayor Vincent A. Cianci, Jr.

March 16, 1995

Council President Petrosinelli, members of the Providence City Council, ladies and gentlemen:

I come before the community today to issue a resounding call for action. The challenges we face require bold leadership and an unwavering commitment to the City we cherish. The actions we take at this moment in our City's long and storied history will shape our future for many years to come.

I bring you a message of hope. Providence has been remarkably successful

in meeting the challenges of a central city. I am confident we will continue to be successful. But we must unite as a people and take a common course of action in the interests of the City.

To move this city forward, we must continue the journey we began four years ago. We must rebuild our neighborhoods, provide educational opportunity for our children, institute school reform, reduce the tax burden on homeowners and businesses, lower the crime rate, create decent jobs for our people, and make sure Providence Place rises in Capital Center. Nothing -- nothing - - is going to stand in our way.

But the prerequisite of all progress in this city is financial stability. Providence must have the financial strength to provide

vital services to the 300,000 people who fill this city every day. We must have the financial strength to renew our neighborhoods -- house by house, street by street, block by block. We must have the financial strength to build classrooms for the 6,000 additional students we expect in the decade to come. We must have the financial strength to invest in ventures like Capital Center, Waterplace Park, and River Relocation -- visionary investments that create urban vitality, and that create good decent jobs for our people.

The financial plan I am announcing today will balance our budget in the coming year and in years thereafter. The plan will give us the resources we need to fulfill our service responsibilities as Rhode Island's

capital city. And the plan will open the door to a prosperous future for our 360-year-old city.

In order for Providence to succeed, we must have the enlightened support of the State of Rhode Island. Our financial stability is of paramount importance to the people of this state. Providence is the heart of the Rhode Island economy. One-third of all pay earned in Rhode Island is earned right here in Providence -- \$3.5 billion a year. Great institutions -- colleges, hospitals, churches, charities, the centers of state and federal government in Rhode Island -- all are located here. All vitally depend on the services we provide. This is no time for political partisanship or posturing. This is a time for bold and

decisive leadership. Providence must take the first step. But the State of Rhode Island must be our partner in this essential enterprise.

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What are the causes of the City's financial distress? It is important to understand that Providence faces a structural deficit, with expenditures rising much faster than they should and revenues rising much more slowly than they should. Every year, expenditures rise by 7 percent and local revenues by less than 2 percent. Every year, the gap grows wider. In fiscal 1996, if nothing is done, expenditures will exceed revenues by more than \$40 million. In four years, the gap will be almost \$100 million. To eliminate our structural deficit, we must

reduce our rate of spending to a supportable level and we must enlarge our base of revenue.

One of the most important conclusions I bring to you today is that the property tax no longer meets the City's needs.

The City of Providence must rely on the property tax for 80 percent of our local revenue, but the tax base is barely growing. In fact, the base has lost \$100 million in property value over the last five years, and we expect hardly any growth for the rest of the decade.

The base is not growing in large part because business is fleeing the \$68 tax rate we charge on business tangible property. The two-tiered rate was established in the late eighties with all good intentions, but we

are paying a high price today. Why did Amica move to Lincoln, McLaughlin & Moran to Cranston, and Channel 10 to Cranston? In large part because the \$68 tax on Amica's computers, Channel 10's broadcast equipment and McLaughlin's beer was a huge expense. We've ^{INVESTED} ~~spent all this~~ money on Capital Center, but we have a business tax that's double and triple the tax charged by competitor communities. This issue must be addressed -- and soon.

Of course, our revenue problems are aggravated by the fact that half our tax base is exempt. For the other 38 cities and towns, ^{TAX EXEMPT} the average is only 15 percent. While we've been losing \$100 million in taxable value, we've been gaining a quarter of a billion dollars in tax-exempt value. Take a good

look around you: Providence is fast becoming a tax-exempt economy. Tax-paying companies like Amica flee our high taxes, while tax-exempt institutions like Rhode Island Hospital invest in major expansions. Over the last 20 years or so, we've lost almost 25,000 jobs in manufacturing, retailing and other businesses that pay property taxes, while gaining 15,000 jobs in health, education and government -- the tax-exempt sector. All this is good for the city economy, bad for the City government's coffers.

It is emphatically clear that we can no longer rely on the property tax to meet our needs. Providence must have a new, growing source of tax revenue to supplement the existing revenue base. I will

ask the General Assembly to create a study commission for the purpose of identifying alternative revenues for the City. The commission will be asked to recommend a solution for the Assembly's consideration in the 1996 session. The new revenue should be used primarily to reduce the property taxes we now have, so that Providence can attract new businesses and expand its property tax base.

Providence has a revenue problem, that's for sure. But we also have a serious expenditure problem that must be addressed. What are the causes of the rapid growth in City spending? There are two major reasons.

First, Providence in the last decade of this century is experiencing a wave of

immigration not seen since the first decades of this century. Tens of thousands of immigrants -- from Latin America, from Southeast Asia, from Africa -- are making their way to Providence. As a result, enrollment in the public schools is growing rapidly. Every year, we are adding more than 700 students -- that is, enough students to fill a large elementary school. Over the next four years, the School Department budget is expected to grow by almost \$60 million. And we are told we will have to spend another \$60 million during this period on new classrooms for thousands of new students.

The second major reason for our predicament is union contracts we can no longer afford. City unions won major

increases in fringe benefits during the affluent 1980s, resulting in dramatic increases in cost during the recessionary 1990s. The cost of health insurance and retirement benefits has grown by 122 percent since 1989. Five-percent COLAs, "Blue Cross for Life" and full-coverage health plans have become extremely expensive -- and can no longer be supported by the taxpayers of this city.

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The immediate task is to close a \$41 million gap between expenditures and revenues for the fiscal year beginning July 1.

Now is not the time for Band-Aid approaches. We must address our structural problems head-on. We must make permanent reductions in expenditure, with

savings year after year. We must put into place recurring sources of revenue. And we must act in the best interests of the community as a whole. This means that we must make every effort not to raise taxes. Higher taxes will only accelerate the departure of people and businesses from this city, and make things that much worse. I will not be party to any effort to paper over our problems with a major tax increase.

No, the best interests of this city require that we make deep cuts in expenditure and fight for the restoration of state aid. The expenditure cuts will save \$25 million, and the restoration of state aid will bring in \$11 million -- thereby closing most of the \$41 million deficit we face for next year.

We are gratified that the legislature is already taking steps to restore the municipal aid that was cut.

We in Providence fought for years to get full funding for the PILOT program, and for good reason: The people of this city pay much higher taxes because there are ten colleges and hospitals with more than a billion dollars in tax-exempt value in the City of Providence. Brown University and Rhode Island Hospital serve people from all over the region and the country, and they do so with great distinction, but only the people of Providence have to pay extra. The PILOT helps to ease that burden.

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I believe the prospects for restoration are good. More than 40 members of the House recently sponsored a bill that would continue

full funding for the PILOT. With the help of our hardworking Providence delegation, I am confident we will prevail.

Our budget-balancing plan has other important provisions. We propose that the 35-percent homestead exemption granted in 1988 be limited to property-owners who live in their homes. A tax break that is intended to encourage homesteading should not be offered on the same terms to absentee landlords. We propose that the exemption for absentees be cut in half, which will bring in about \$5 million in additional revenue -- without raising the overall rate of taxation.

We have also begun discussions with the colleges and hospitals of this city regarding a new fee they would pay for Fire Department runs to their institutions. Every year, fire

trucks and rescue trucks are called to the institutions about 1,200 times. Most of the runs are to the colleges. The overwhelming majority of the alarms are false -- either because of defective alarms or deliberate pulls. The yield from the new fee would be relatively small -- less than \$1 million a year. But it is important that these institutions, which contribute so much good to Providence, also contribute revenue to the city during its hour of need.

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Of course the heart of our plan is the \$25 million in expenditure cuts that we propose.

The cuts are deep, but the plan is fair.

Quite frankly, Providence can no longer afford the labor costs that the unions ask us to pay. We are now spending \$70,000 a year

in salary and fringe benefits for each police officer or firefighter. We are spending \$60,000 for each teacher, and more than \$50,000 for laborers and other city workers. Let me remind you that the median household income in this city is only \$22,000.

The City also can no longer afford to pay pension benefits at the current level to uniformed officers. Retired officers receive an automatic, 5-percent increase in their pensions every year. They also receive free Blue Cross during the officer's retirement years. Because police officers and firefighters can retire after 20 years on the job, in many cases the City must pay these benefits for three or four decades. The total

payout can reach into the millions of dollars for each retiree.

Certainly the City can no longer afford the very high percentage of pensions that are awarded on a disability basis. In the last decade, 310 uniformed officers have been awarded disability pensions. The City's actuary tells us that he was expecting only 45 disability pensions for the entire decade. All these "extra" disability pensions are costing the City \$6.5 million a year. Steps must be taken to bring disability pensions into line. We will take those steps.

Let me pause a moment to make one point perfectly clear. The vast majority of police officers, firefighters, teachers and other City workers are hardworking and dedicated. Every day, public safety officers

put their lives on the line for the citizens of this city. They are at their posts 24 hours a day, seven days a week, protecting us all. I also have great admiration for our teachers, who have the challenging task of educating a highly diverse student population and overcoming the disadvantages of poverty. Throughout City government -- in Parks, in Planning, in the Controllers office -- City employees perform all the critical tasks that make this complex city run. But the City is now at a crossroads. The steps we take or don't take today will make a huge difference in the future of the City. Unless costs are brought into line, everything that City employees work for will be in jeopardy.

Now let me speak directly to City Council members. As you know, most of

the benefits we can no longer afford were agreed to before I took office, and before many of the members of the present Council took office. The benefits were granted during one of the most affluent periods in the history of the City. But times have changed. Even though we didn't cause the problem, it is our duty to forge a solution. All of us have to be part of the solution.

I propose one more major action: The elimination of 200 city jobs. I have been assured that, with the cooperation of the unions, most of this reduction can be achieved by attrition and retirement, especially if we offer attractive but prudent incentives for eligible workers to retire. In some City departments, there will be significant reductions in employment. But

this should be seen as an opportunity for the City -- an opportunity to reorganize our work force and to run a leaner, more efficient operation. America is abuzz with talk of "downsizing" and "reinventing government." This is a movement Providence can profitably join. With the cooperation of city unions, and with assistance from the business community, Providence can cut costs without any reduction in essential city services.

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The time has come for all of us to put the interests of the City first. We will all have to sacrifice. But the City which has given so much to us will be strong once again.

Financial stability is the prerequisite for all progress in this city. We must resume the great work we have begun -- rebuilding neighborhoods, creating new opportunity, instituting school reform, making our city safe and livable. Providence is leading the nation in so many ways. We have won applause for the Gun Court, Waterplace, Roger Williams Park, the Feinstein School and much more. The Providence Plan is the number-one lender to homebuyers in the city beyond the East Side. The Plan has brightened neighborhoods in desperate need of hope and renewal. It's work must continue.

We are doing great things. We are giving new life to a city with a remarkable heritage, a city that is bursting with the

energy of so many people from distant lands. But there is still so much to do. Together, we will cure our ills, we will regain our strength, and we will set off anew on a great journey.

Umar & Amina
Maya
March 16, 1995
